

Message Text

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ACTION EA-09

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TO SECSTATE WASHDC 1091

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USOECD

E.O. 11652: N/A

TAGS: EGEN, EFIN, AS

SUBJECT: REVALUATION OF AUSTRALIAN OFFICIAL GOLD HOLDINGS

1. FOLLOWING SEVERAL MONTHS OF PERSISTENT RUNDOWN OF AUSTRALIA'S FOREIGN EXCHANGE RESERVES, THE RESERVE BANK REVEALED ON AUGUST 11 THAT IT HAS REVALUED AUSTRALIA'S HOLDINGS OF GOLD FROM \$A37 PER FINE OUNCE TO THE AVERAGE LONDON PRICE, CURRENTLY \$A128. THE EFFECT OF THIS BOOKKEEPING CHANGE WAS TO RAISE AUSTRALIA'S RESERVE FIGURE AS OF JULY 31 BY \$A685 MILLION TO SLIGHTLY OVER \$A3 BILLION.

2. THIS ACTION, FOLLOWING CLOSELY UPON AUSTRALIA'S 3 AUGUST 1.5 PERCENT DEVALUATION OF THE \$A (SEE CANBERRA 5450) AND THE TREASURER'S ANNOUNCEMENT OF A NEW EURO-DOLLAR LOAN PENDING IN SEPTEMBER, UNDERLINES THE LIMITED OFFICIAL USE

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GOVERNMENT'S CONCERN OVER THE GROWING EXPECTATIONS IN BUSINESS CIRCLES OF ANOTHER MAJOR \$A DEVALUATION. THE FAILURE TO DATE OF THE BALANCE OF PAYMENTS TO RESPOND AS HOPED TO THE SUBSTANTIAL DEVALUATION OF NOVEMBER 1976 HAS BEEN HIGHLIGHTED BY A SERIES OF MONTHLY RESERVE LOSSES (MAY \$A174 MILLION, JUNE \$A217 MILLION, JULY \$A270 MILLION) WHICH HAD REDUCED AUSTRALIAN RESERVE

HOLDING ON THE OLD VALUATION BASIS TO THE VICINITY OF \$A2.3 BILLION. THIS LEVEL, APPROXIMATING THREE MONTHS IMPORTS, HAS TRADITIONALLY BEEN REGARDED AS THE VICINITY IN WHICH DEVALUATION BECOMES LIKELY.

3. EMBASSY COMMENT: THE GOLD REVALUATION , WHICH COINCIDENTALLY HAD BEEN CALLED FOR IN RECENT DAYS BY THE LABOR OPPOSITION AS PART OF ITS BROADER PROGRAM TO DEFEND THE DOLLAR AND REVIVE ECONOMIC ACTIVITY, MAY HAVE A USEFUL ONE-TIME COSMETIC EFFECT. OOREOVER, THE ADVERSE JULY BALANCE OF PAYMENTS RESULTS WERE AGGRAVATED BY A NUMBER OF ONE-TIME FACTORS. NEVERTHELESS, THE RESULTS OF THE 1976 DEVALUATION HAVE BEEN A DEEP DISAPPOINTMENT. FOLLOWING AN INITIAL CAPITAL INFLOW WHICH STIMULATED A PREMATURE REVIVAL OF THE VARIABLE DEPOSIT RATE, THE INFLOW OF CAPITAL RAPIDLY DWINDLED AND REMAINED A TRICKLE AFTER THE VARIABLE DEPOSIT RATE WAS REMOVED IN JULY. MEANWHILE, NEITHER IMPORTS NOR EXPORTS HAVE RESPONDED VISIBLY TO THE DEVALUATION AND THE RESULT HAS BEEN THE SERIES OF MONTHLY DEFICITS AND RAPID RUNDOWN OF RESERVES. THE CURRENT ATMOSPHERE IS STRIKINGLY SIMILAR TO THAT WHICH PREVAILED IN THE MID MONTHS OF 1976, AS THE GOVERNMENT RESOLUTELY ASSERTED ITS DETERMINATION TO DEFEND THE DOLLAR, WHILE CAPITAL INFLOW LANGUED AND BUSINESS SPECULATION AGAINST THE \$A MOUNTED. THE CULMINATION OF THE 1976 SEQUENCE WAS THE GOVERNMENT'S SUDDEN CAPITULATION AND THE 17.5 PERCENT DEVALUATION AT THE END OF NOVEMBER.

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HOPEFULLY THE APPARENT FAILURE OF THAT MOVE WILL REINFORCE THE GOVERNMENT'S DETERMINATION IN 1977 TO DEFEND THE \$A AGAINST MAJOR DEVALUATION AND CONTINUE ITS PRIMARY EMPHASIS ON ITS ANTI-INFLATION PROGRAM. ALSTON

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